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FISCAL IMPACT STATEMENT

LS 6453 | **NOTE PREPARED:** Dec 6, 2005
BILL NUMBER: HB 1033 | **BILL AMENDED:**

SUBJECT: Child Welfare Levy Elimination.

FIRST AUTHOR: Rep. Buck | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

STATE IMPACT	FY 2006	FY 2007	FY 2008
State Revenues			
State Expenditures	20,900,000	90,500,000	172,500,000
Net Increase (Decrease)	(20,900,000)	(90,500,000)	(172,500,000)

Summary of Legislation: This bill establishes a state-funded child welfare relief credit against child welfare levies imposed in a county before 2010 for a: (1) county medical assistance to wards fund; (2) family and children's fund; (3) children's psychiatric residential treatment services fund; or (4) children with special health care needs county fund. It permits an additional credit in a tax incentive financing (TIF) area equal to the child welfare relief credit.

Beginning in 2010: the bill (1) eliminates authority for a county to impose child welfare levies; (2) specifies that the state will fund the functions that were funded by child welfare levies before 2010; (3) adjusts distributions of Financial Institution Tax, Motor Vehicle Excise Tax, and Local Income Tax distributions affected by the elimination of child welfare levies; and (4) establishes procedures to eliminate shortfalls of revenue in TIF areas resulting from the elimination of child welfare levies.

This bill corrects internal references in the property tax replacement fund law. It also corrects obsolete references to the Division of Family Resources. The bill eliminates obsolete provisions concerning credits granted in TIF areas in Marion County for taxes due before 1992 and makes related changes. This bill makes an appropriation.

Effective Date: Upon passage; July 1, 2005 (retroactive); January 1, 2006 (retroactive); July 1, 2006.

Explanation of State Expenditures: Under this proposal, the state will gradually assume responsibility for funding expenditures that are currently paid from the county family and children, county children's psychiatric residential treatment services, county medical assistance to wards, and county children with special health care needs funds. [The gross levy for these funds is collectively known as the total child welfare levy. The total net child welfare levy is equal to the gross levy amount less all state-paid credits (PTRC and Homestead Credit).] This would be accomplished under the following schedule.

The bill would provide a state child welfare relief credit to owners of all real and personal property. The credit would equal a percentage of the amount of the taxpayer's net child welfare tax amount. The credit percentage would be 20% in CY 2006, 40% in CY 2007, 60% in CY 2008, and 80% in CY 2009.

In CY 2010, all child welfare relief credits would cease with the total elimination of the child welfare levies. The state would pay children's welfare expenses directly beginning in CY 2010.

Under current law, the statewide minimum PTRC/Homestead Credit amount is equal to (1) the amount spent in CY 2002 for PTRC and homestead credits ($1,121.7 M), plus (2) the amount of revenue expected to be raised by 1% of the current 6% sales tax rate. For years beginning in CY 2010, this bill would reduce the CY 2002 base amount by $34.7 M, to $1,087.0 M. The reduction amount equals the approximate amount of state credits paid in CY 2002 on the children's welfare funds.

The child welfare relief credits would be calculated on and applied to the taxpayer's net property tax amount that is calculated after the application of PTRC and state Homestead Credit, but before any locally funded credits.

The statewide total gross child welfare levy was $303.6 M in CY 2005 and is projected at $367.9 M in CY 2006, $430.5 M in CY 2007, $451.5 M in CY 2008, $473.6 M in CY 2009, and $496.7 M in CY 2010.

The statewide total net child welfare levy was $264.6 M in CY 2005 and is projected at $313.0 M in CY 2006, $365.7 M in CY 2007, $374.8 M in CY 2008, $392.4 M in CY 2009, and $411.0 M in CY 2010.

The following table shows the estimates for the credits (and 2010 net levy reductions) under this bill for the various taxpayer groups.

Estimated Child Welfare Credits (CY 2006 - CY 2009) and Estimated 2010 Net Levy Reduction (CY 2010) (In Millions)					
	CY 2006	**CY 2007**	**CY 2008**	**CY 2009**	**CY 2010**
Residential - Homestead	$ 21.5	$ 54.1	$ 83.2	$ 117.6	$ 155.8
Agricultural Homestead	1.9	4.6	7.2	10.2	13.6
Residential - Non-Homestead	8.4	20.9	32.8	46.4	61.4
Mobile Homes - Pers Prop	0.3	0.7	1.0	1.4	1.9
Other Agricultural Real	2.7	5.2	7.8	10.4	13.0
Agricultural Personal	0.2	0.4	0.6	0.8	1.0
Other Real (50% in 2009)	16.8	41.0	64.0	90.4	119.5
Other Personal (50% in 2009)	10.9	19.3	28.3	36.7	44.7
Total	**$ 62.6**	**$ 146.3**	**$ 224.9**	**$ 313.9**	**$ 411.0**
Note: Totals may not add due to rounding.					

The cost to the state on a fiscal year basis is estimated at $20.9 M in FY 2006, $90.5 M in FY 2007, $172.5 M in FY 2008, $254.6 M in FY 2009, and $346.3 M in FY 2010.

The bill would allow the Property Tax Replacement Fund (PTRF) Board to adjust the PTRF distribution schedule for any or all counties in CY 2006 in order to implement the credit. There are six payments each calendar year. The extent to which the distribution schedule would be changed is unknown. If both of the FY 2006 payments for all counties were moved into FY 2007, then the cost to the state on a fiscal year basis is estimated at $0 in FY 2006, $111.5 M in FY 2007, and the estimates for future years remain the same.

Cost estimates are based on growth estimates for assessed values and children's welfare levies as outlined below. These estimates may be updated at a later date if new information is obtained.

Methodology:
Estimates of assessed value by county begin with the 2005 abstract AV for all real property, homesteads in particular, and personal property by county. These amounts were broken out further using county property record card data. Adjustments include the remaining inventory deductions in CY 2006 and CY 2007, the $880/acre base farmland assessment beginning in CY 2006, and annual real property AV adjustments beginning in CY 2007 (including equalization).

Estimates of county medical assistance to wards fund, children's psychiatric residential treatment services fund, and children with special health care needs fund levies by county begin with the 2005 gross levy. The 2005 levies were then grown at 3.9% per year.

Estimates of county family and children's fund levies for CY 2006 begin with the county adopted levies for CY 2006. The 2006 levies must be certified by the DLGF by February 15, 2006. Changes in the amount levied by each county are possible until that time.

CY 2007 levy estimates were increased by the cost of new programs that will be implemented sometime in CY 2006. CY 2007 and later levies were assumed to grow at 5% per year, the three-year (2002-2005) average annual statewide growth in this levy.

Explanation of State Revenues: The state would receive a portion of county Motor Vehicle Excise Tax and Financial Institutions Tax (FIT) revenue beginning in CY 2010. The amount transferred to the state would be equal to the average annual amount of tax attributable to the children's welfare funds over a three-year period, CY 2007 - CY 2009.

Explanation of Local Expenditures: Local expenditures would remain unchanged until CY 2010 when expenditures would be reduced by the amount of spending from the children's welfare funds.

Counties will have additional expenses for programming property tax billing systems in CY 2006 to accommodate this credit.

Counties that have adopted a county-funded homestead credit in addition to the state homestead credit would pay slightly less for the credits under this proposal. Under the bill, beginning in CY 2006, the net levy on which COIT homestead credits are based would be reduced by the net levies for the children's welfare funds. COIT proceeds that are not used for homestead credits are distributed to civil units as certified shares.

In a county that has adopted a CEDIT rate to pay for homestead credits to offset shifts from eliminating property tax on inventory, the necessary CEDIT tax rate could be slightly lower because the net shift would be slightly lower.

The cost of other credits that are based on the net tax billing that may be available in some counties would also be slightly reduced as a result of this proposal

Explanation of Local Revenues: Local revenues would remain unchanged until CY 2010 when revenues would be reduced by the amount of net property tax levy, PTRC and Homestead Credits, excise tax, and FIT distributions attributable to the children's welfare funds. The reduction in local expenditures and the reduction in local revenues should be the same.

The bill allows the governing body of a TIF or TIF-like district to impose special assessments if the elimination of the children's welfare tax rates in CY 2010 would reduce tax revenue to an amount that is insufficient to make bond payments.

State Agencies Affected: Department of Child Services (DCS); Department of Local Government Finance; Department of State Revenue.

Local Agencies Affected: Counties.

Information Sources: Local Government Database; DCS; County real property assessment records; county auditor's abstracts; Bureau of Economic Analysis; Office of Federal Housing Enterprise Oversight.

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